



Beautiful business

MARKET RELEASE

H1 FY23 Interim Results Investor Presentation

WELLINGTON, 10 November 2022 - Xero Limited (ASX: XRO), in accordance with the ASX Listing Rules, attaches its H1 FY23 Interim Results Investor Presentation.

Authorised for release to the ASX by the Chair of the Board & Chair of the Audit and Risk Management Committee

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About Xero

[Xero](#) is a global small business platform with 3.5 million subscribers which includes a core accounting solution, payroll, workforce management, expenses and projects. Xero also has an extensive ecosystem of connected apps and connections to banks and other financial institutions helping small businesses access a range of solutions from within Xero's open platform to help them run their business and manage their finances. For three consecutive years (2020-2022) Xero was included in the Bloomberg Gender-Equality Index. In 2021, Xero was included in the Dow Jones Sustainability Index (DJSI), powered by the S&P Global Corporate Sustainability Assessment. Xero is a [FIFA Women's Football partner](#) under FIFA's new commercial structure.

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Investor briefing

Half year results to 30 September 2022

10 NOVEMBER 2022



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Important notice

This presentation is given on behalf of Xero Limited (Xero) (ASX:XRO) (Company number NZ 183 0488, AU ARBN 160 661 183)

Information in this presentation:

- is for general information purposes only, and is not an offer or invitation for subscription, or purchase of, or a recommendation to invest in, Xero securities
- should be read in conjunction with, and is subject to, Xero's latest and prior interim and annual reports, including Xero's interim report for the period ended 30 September 2022, and Xero's market releases on the ASX
- includes forward-looking statements about Xero and the environment in which Xero operates, which are subject to uncertainties and contingencies outside of Xero's control – Xero's actual results or performance may differ materially from these statements
- includes statements relating to past performance, which should not be regarded as a reliable indicator of future performance
- may contain information from third parties believed to be reliable, but no representations or warranties are made as to the accuracy or completeness of such information
- includes Non-GAAP measures as we believe they provide useful information for readers to assist in understanding Xero's financial performance. Non-GAAP financial measures do not have a standardised meaning and should not be viewed in isolation or considered as substitutes for measures reported in accordance with NZ IFRS. These measures have not been independently audited or reviewed

All information in this presentation is current at 30 September 2022, unless otherwise stated.

All currency amounts are in NZ dollars, unless otherwise stated.

Due to rounding, numbers in this presentation may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

See page 34 for a glossary of the key terms used in this presentation.

Agenda

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CEO succession



David Thodey AO
CHAIR

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Steve Vamos
CHIEF EXECUTIVE OFFICER

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Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER

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CEO succession



David Thodey AO
CHAIR



Business update



Steve Vamos

CHIEF EXECUTIVE OFFICER



Strong growth momentum

- Continuing to deliver strong revenue growth and good progress on strategic priorities
- Customers are increasingly using Xero to run their business and meet critical compliance needs
- Xero's high value proposition is needed more than ever in the current complex macroeconomic backdrop
- Free cash flow growth from emerging efficiencies reflects investment. Focused on continuing to invest for long term growth while remaining disciplined



Strong revenue growth demonstrates value of proposition

Financial and operating performance highlights for the half year ended 30 September 2022

SUBSCRIBERS

3.496m

+ **483,000** net subscriber additions or **16% YOY**

+ **225,000** net subscriber additions **in H1 FY23**

ARPU

\$35.30

+ **13% YOY** (6% in constant currency)

AMRR

\$1,480.9m

+ **31% YOY** (23% in constant currency)

TOTAL LIFETIME VALUE

\$13.0b

+ **\$3.1b** or **30% YOY**

OPERATING REVENUE

\$658.5m

+ **30% YOY** (27% in constant currency)

EBITDA

\$108.6m

+ **\$10.5m YOY**

NET LOSS

-\$16.1m

- **\$10.2m YOY**

FREE CASH FLOW

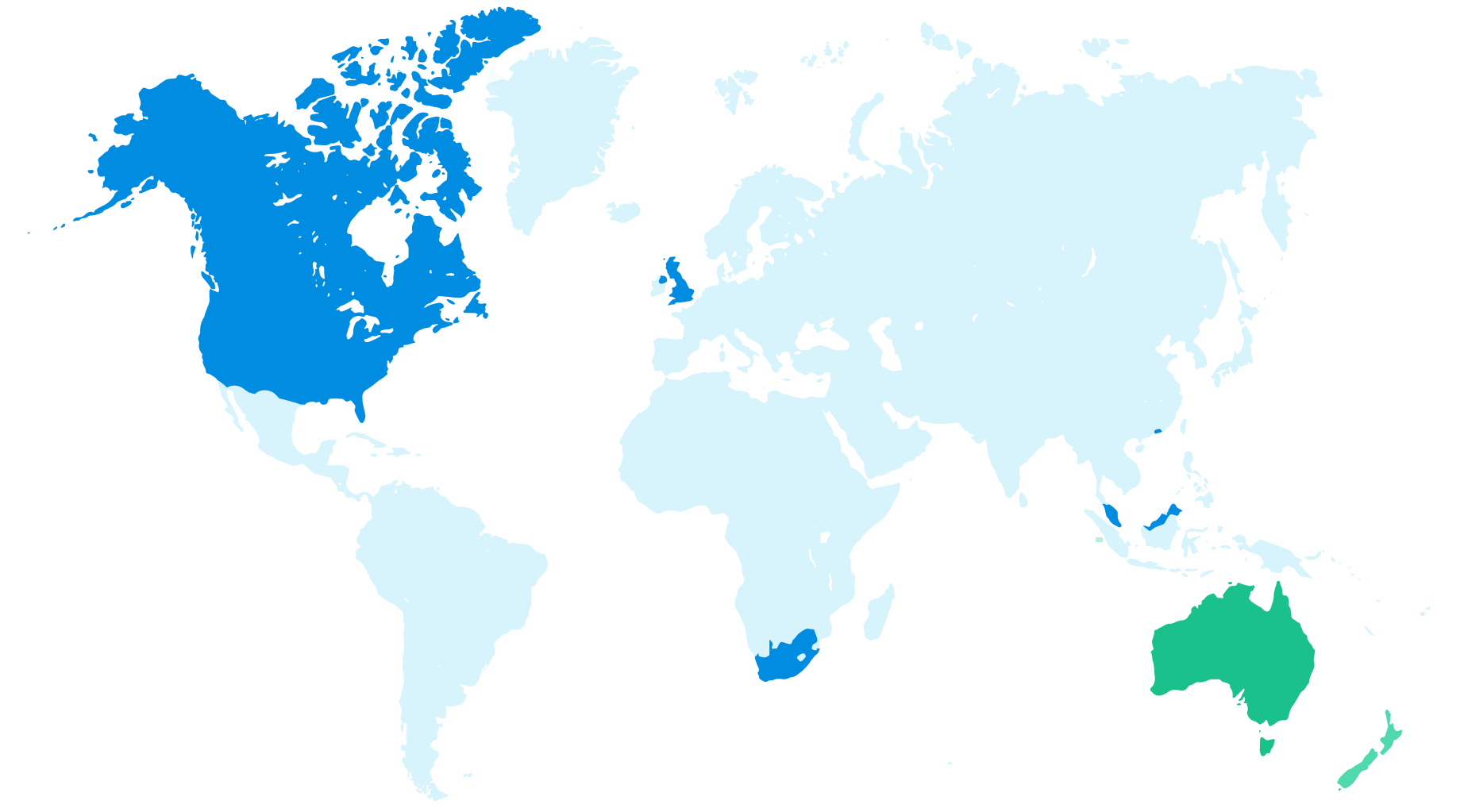
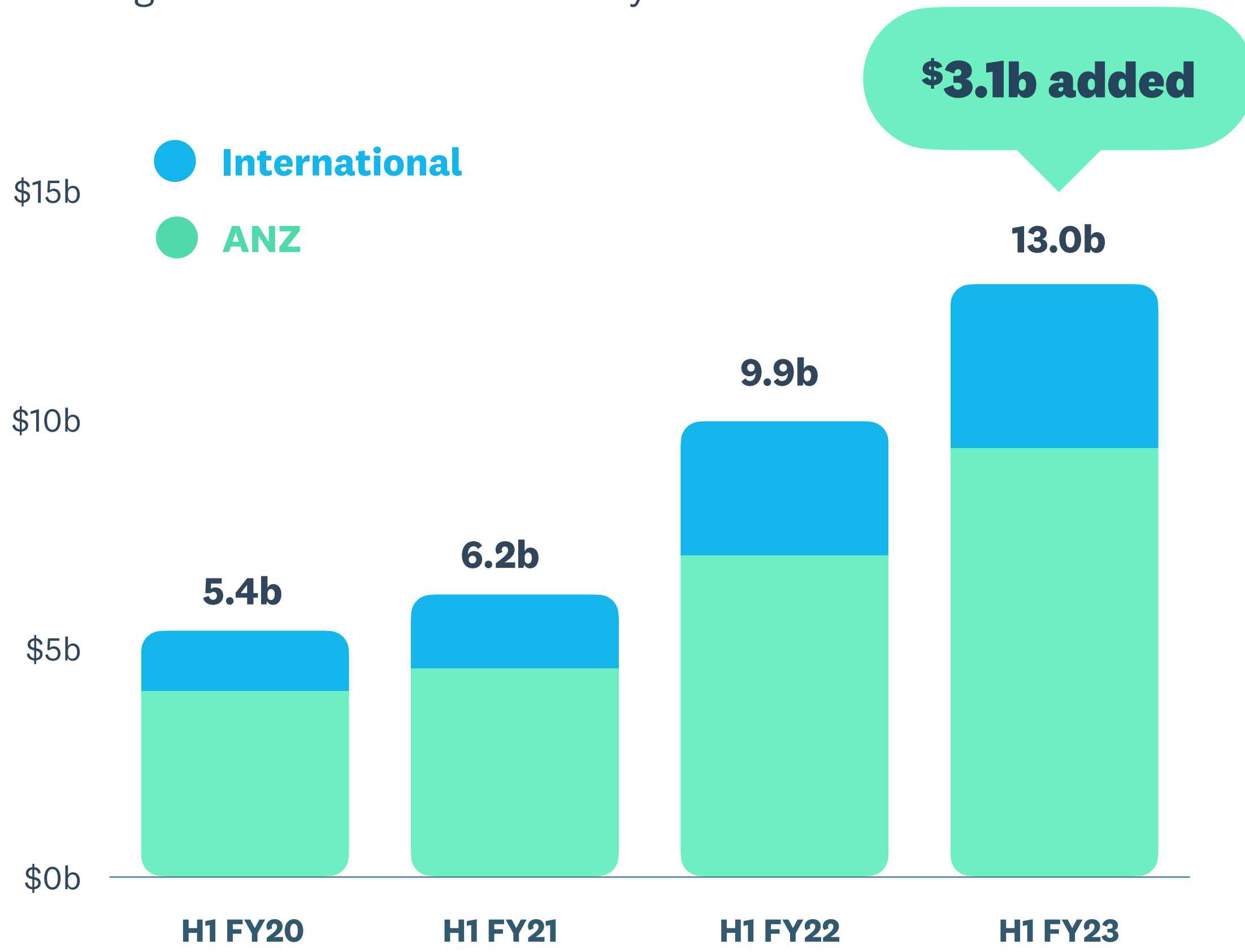
\$15.6m

+ **\$9.2m YOY**

SaaS metrics reflect consistent value creation

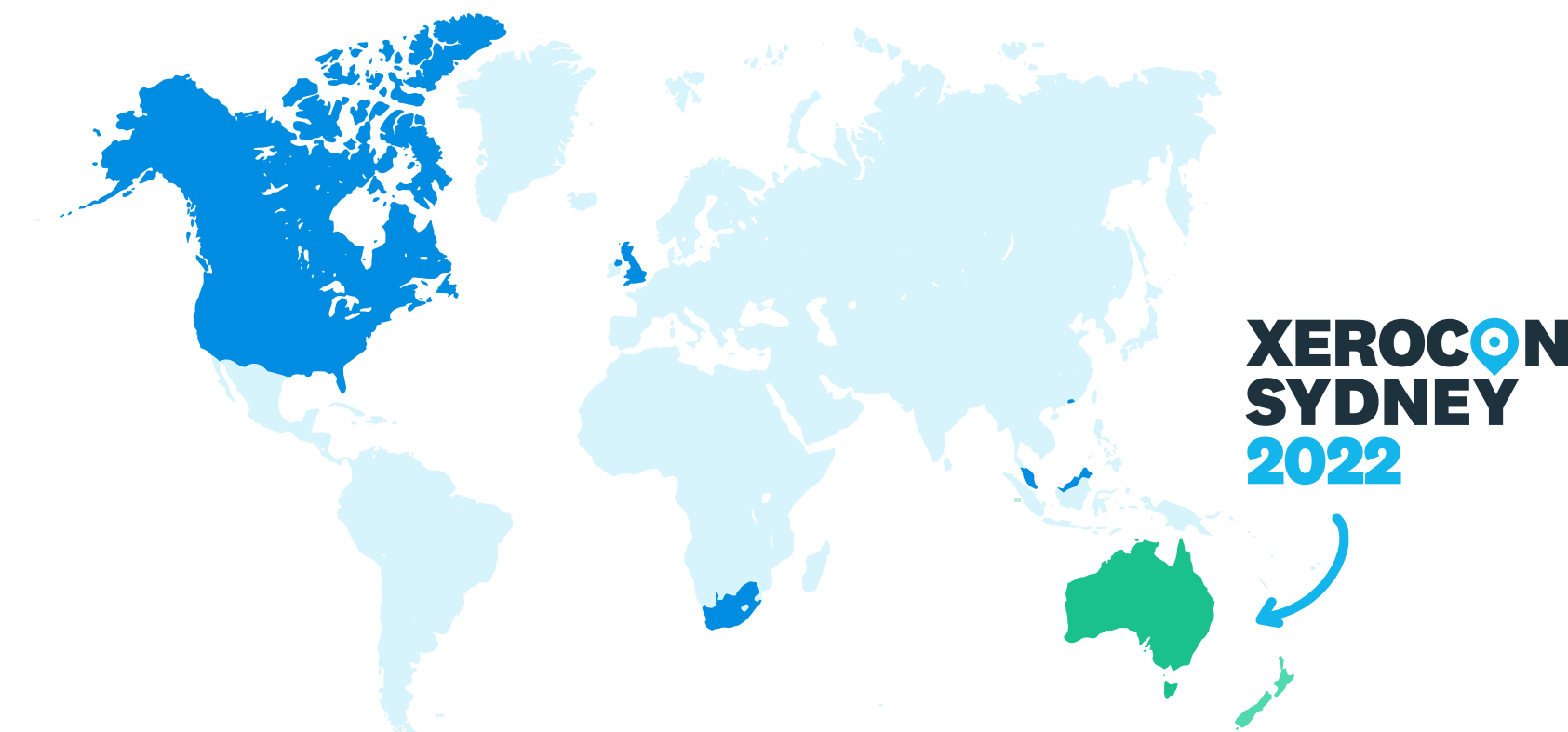
Total LTV over time

- LTV 3 year CAGR was 32% for ANZ and 39% for International
- Average subscriber lifetime of 9.2 years



	ANZ	International	Group
ARPU	\$35.6	\$35.0	\$35.3
Churn	0.66%	1.26%	0.91%
LTV/CAC	15.1	3.0	6.9

Australia and New Zealand highlights



\$378M REVENUE (+27% YOY, 23% YOY constant currency)

2.01M SUBSCRIBERS (+17% YOY), **150K NET ADDITIONS**

\$35.6 ARPU (+13% YOY, 6% YOY constant currency)

Continued momentum in subscriber and revenue growth as accountants and bookkeepers drive further cloud adoption

- Double digit growth in revenue and subscribers
- ARPU expansion reflects the strength of the Xero value proposition¹
- Xerocon Sydney held in September 2022 with more than 3,000 attendees

Australia

	H1 FY23	Δ YOY	
Revenue	\$294m	+31%	+25% YOY constant currency
Subscribers	1.47m	+19%	+126K net additions in H1 FY23

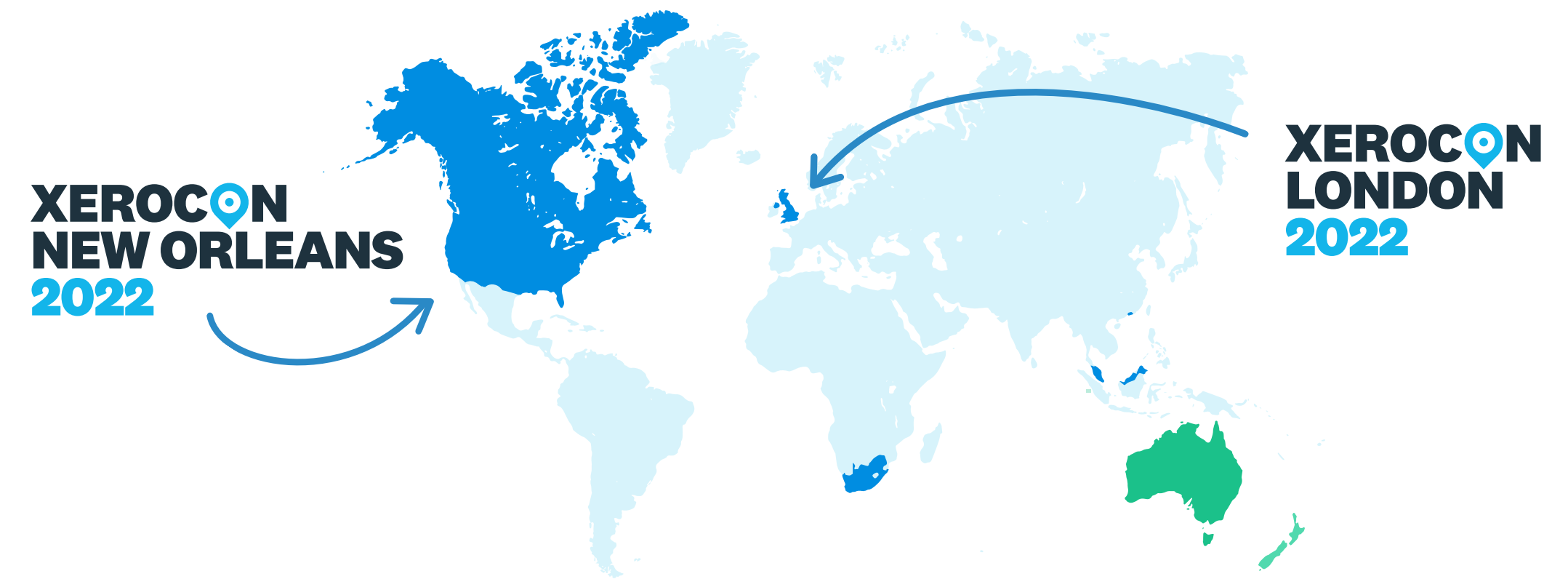
New Zealand

	H1 FY23	Δ YOY	
Revenue	\$84m	+16%	+16% YOY constant currency
Subscribers	536k	+12%	+24K net additions in H1 FY23



¹ Business Edition (BE) price changes effective September 2022, Partner Edition price changes to take effect March 2023

International highlights



\$281M REVENUE (+34%YOY, 32% constant currency)

1.49M SUBSCRIBERS (+15% YOY), **75K NET ADDITIONS**

\$35.0 ARPU (+12% YOY, 6% YOY constant currency)

Positioned for the long term opportunity across our international segments

- Well positioned delivering strong revenue growth and solid ARPU growth¹
- Continuing to progress our product roadmap announcing Xero Go in the UK and our partnership with Avalara for US sales tax
- Subdued H1 FY23 net additions in the UK due to slower than expected uptake of the final stage of MTD for VAT, a less than buoyant macro backdrop and changes that we have implemented to our partner sales approach
- North America net additions impacted by seasonality related to the timing of the tax year end
- We expect Xero’s momentum in subscriber additions in both the UK and North America to improve over the remainder of FY23, with performance in H2 FY23 expected to be similar or better than the prior comparable period

United Kingdom

North America

Rest of World

	H1 FY23	Δ YOY		H1 FY23	Δ YOY		H1 FY23	Δ YOY	
Revenue	\$175m	+32%	+34% YOY constant currency	\$44m	+44%	+30% YOY constant currency	\$62m	+35%	+25% YOY constant currency
Subscribers	894k	+14%	+44K net additions in H1 FY23	354k	+15%	+15K net additions in H1 FY23	242k	+20%	+16K net additions in H1 FY23

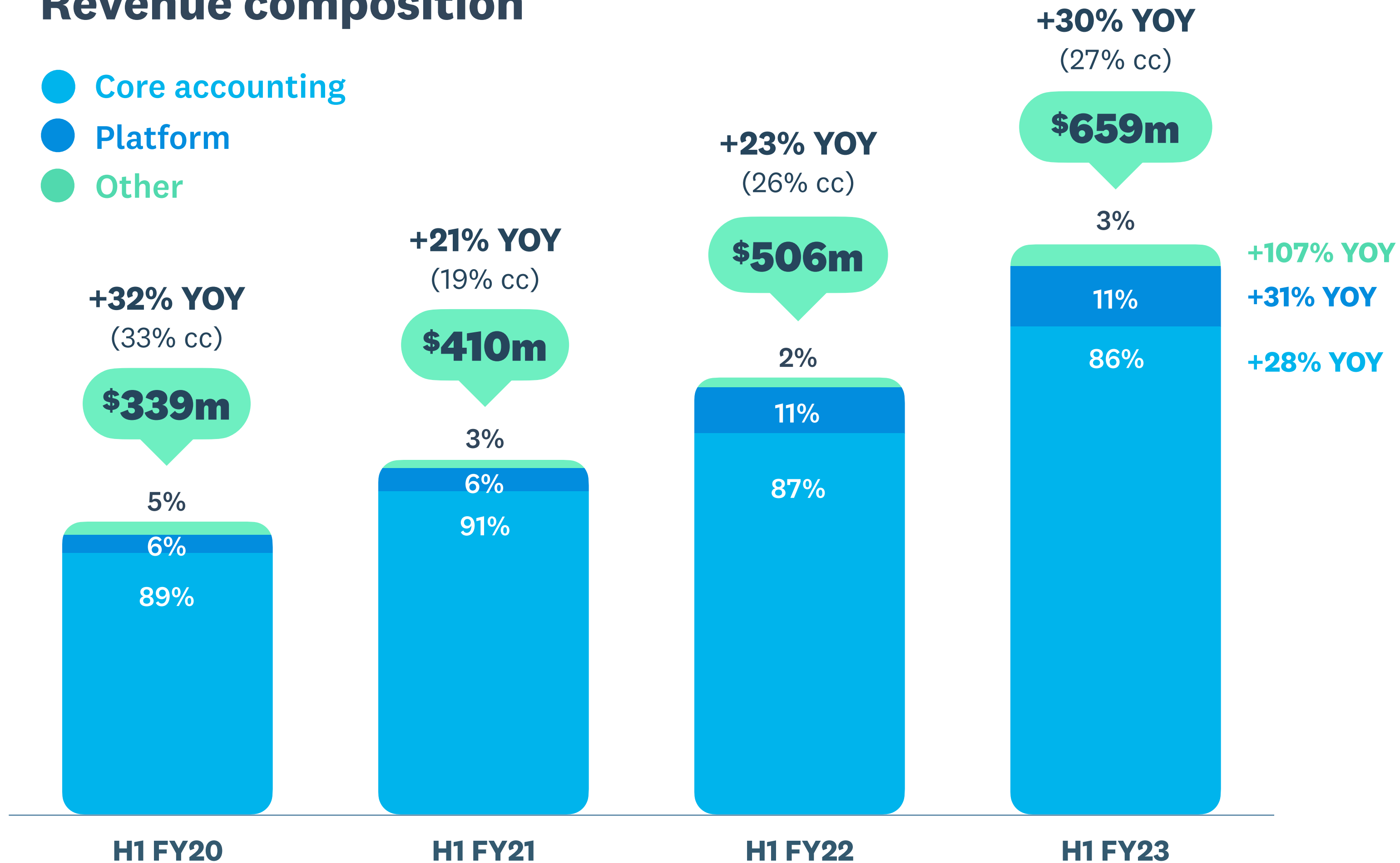
¹ UK Business Edition price changes effective Sept 2022, Partner Edition price changes to take effect March 2023. Business Edition price changes for USD and CAD plans to take effect November 2022.

Strong revenue growth from our portfolio of businesses

Customers increasingly use Xero to operate their business and meet fundamental compliance needs

Revenue composition

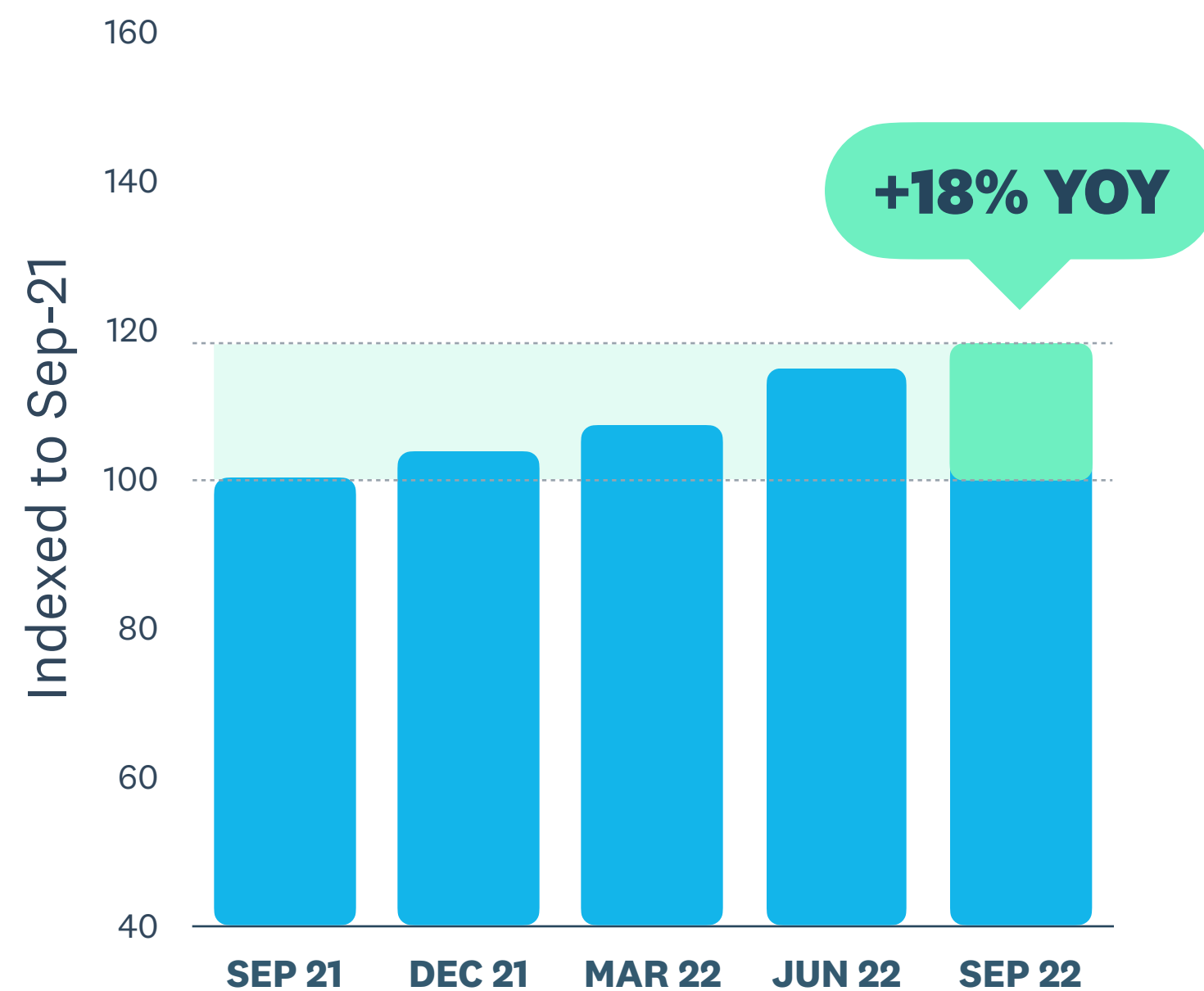
- Core accounting
- Platform
- Other



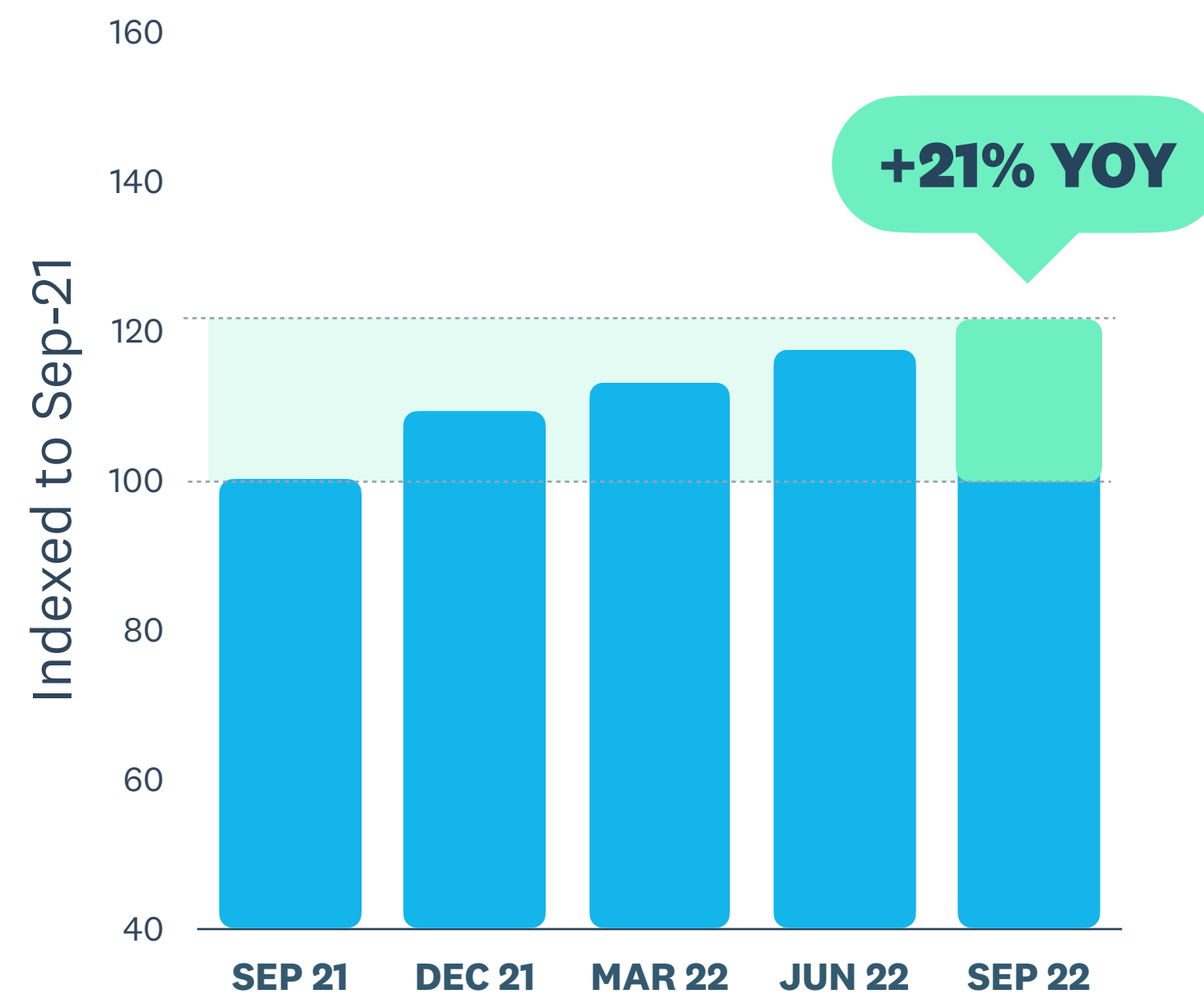
- **Group operating revenue** grew 30% YOY or 27% in constant currency
- **Core accounting revenues** grew 28% YOY or 24% in constant currency, driven by subscriber growth and price changes
- **Platform revenues** increased by 31% YOY or 29% in constant currency
- **Other revenues** increased 107% YOY or 26%, excluding Xerocon revenue

Platform engagement continues to grow

Planday users¹



Employees paid through Xero Payroll²



Total payment value³



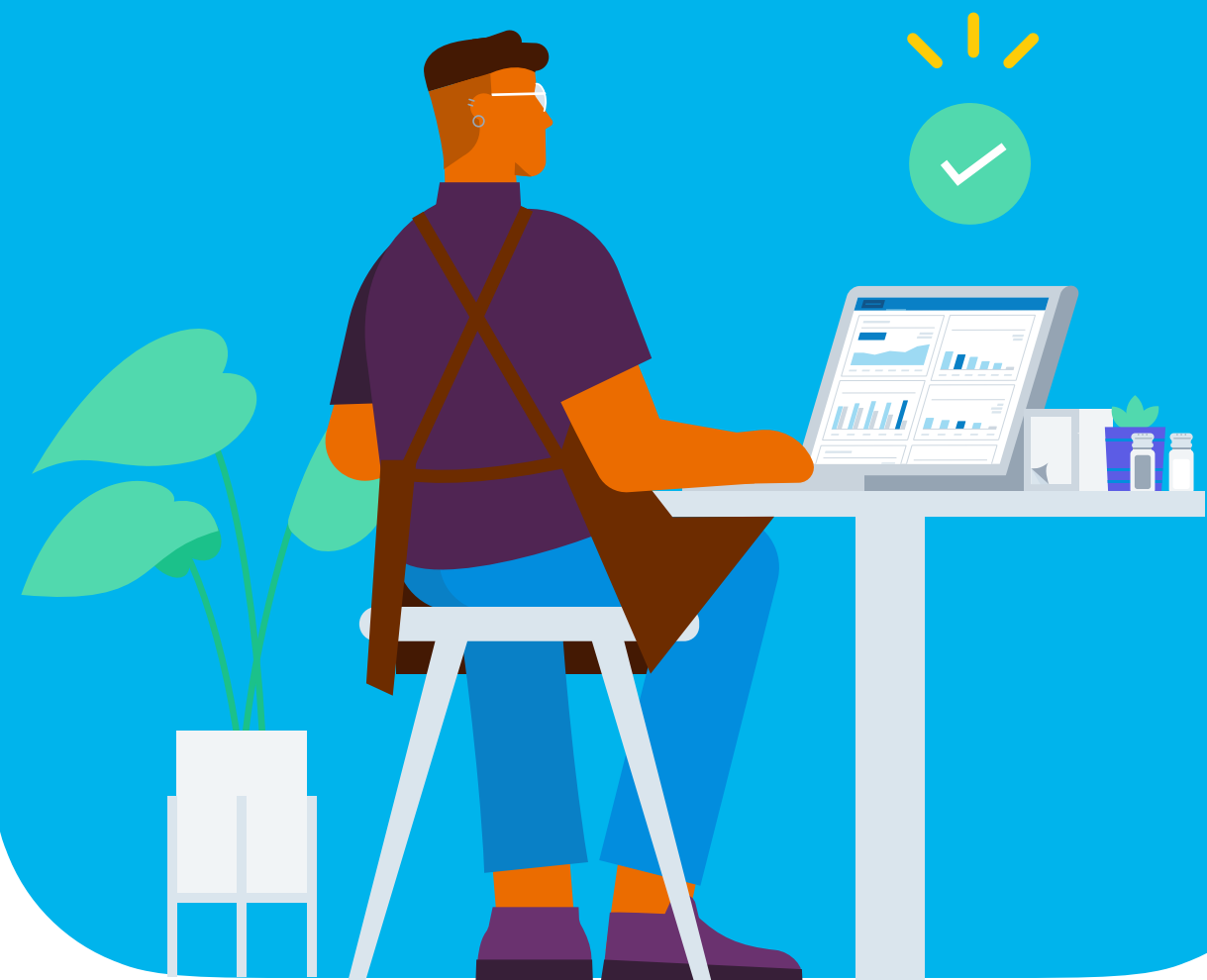
1 Average employee users of Planday

2 Total employees paid through Xero Payroll in Australia, New Zealand and the UK (markets with a Xero Payroll solution)

3 Total invoice payment value across our connected online payment service providers who process the payment of invoices on the Xero platform

Strategic priorities

Drive cloud accounting



Grow small business platform



Build for global scale and innovation



Driving adoption of cloud accounting



Adopting the cloud

United Kingdom

H1 FY23 Δ YOY
894k **+14%**

North America

H1 FY23 Δ YOY
354k **+15%**

Rest of World

H1 FY23 Δ YOY
242k **+20%**

Leveraging the cloud

Australia

H1 FY23 Δ YOY
1.47m **+19%**

New Zealand

H1 FY23 Δ YOY
536k **+12%**

Subscribers

TAM: 45m¹

5.5m

34.5m

1.3m

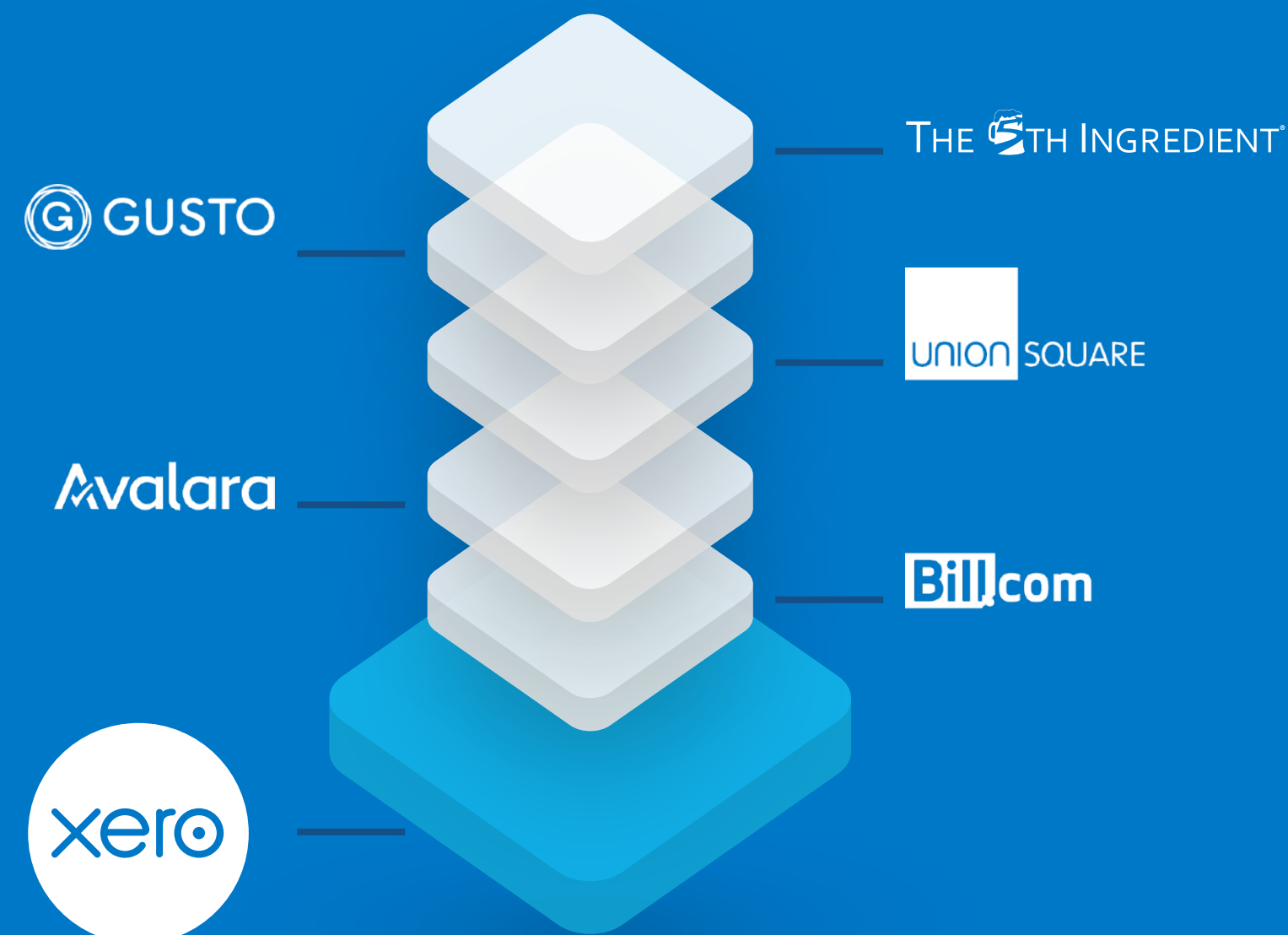
3.7m

¹ Estimated TAM across English speaking cloud accounting markets that Xero has a presence in, based on publicly available data of number of small businesses.

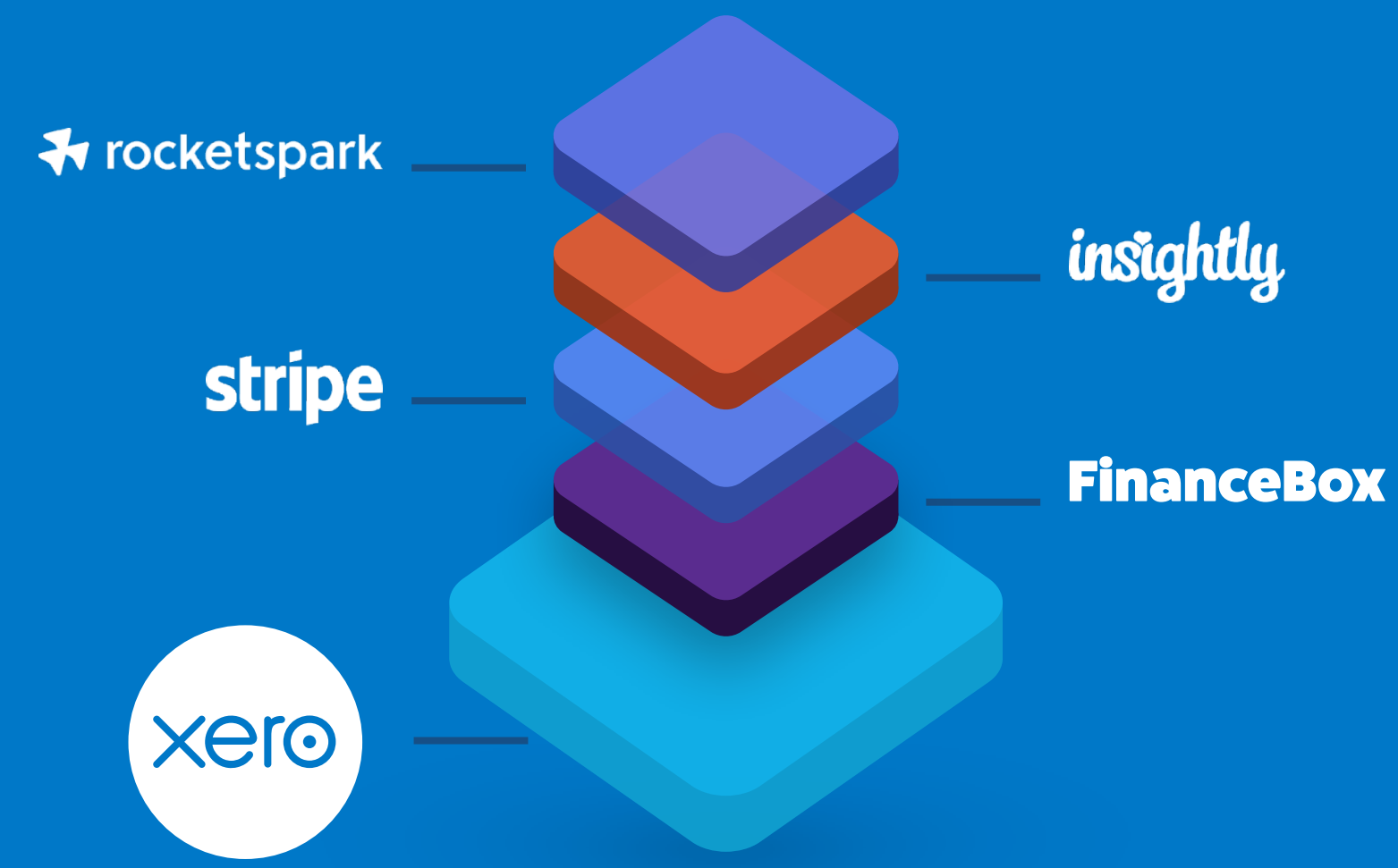
Grow the small business platform: an open platform and ecosystem to address small businesses needs

No single vendor is likely to meet all the needs of a small business

Xero is committed to being an open platform and encouraging third party innovation through our ecosystem



US Microbrewery



UK Adventure Experience Company

Grow the small business platform: an open platform and ecosystem to address small businesses needs

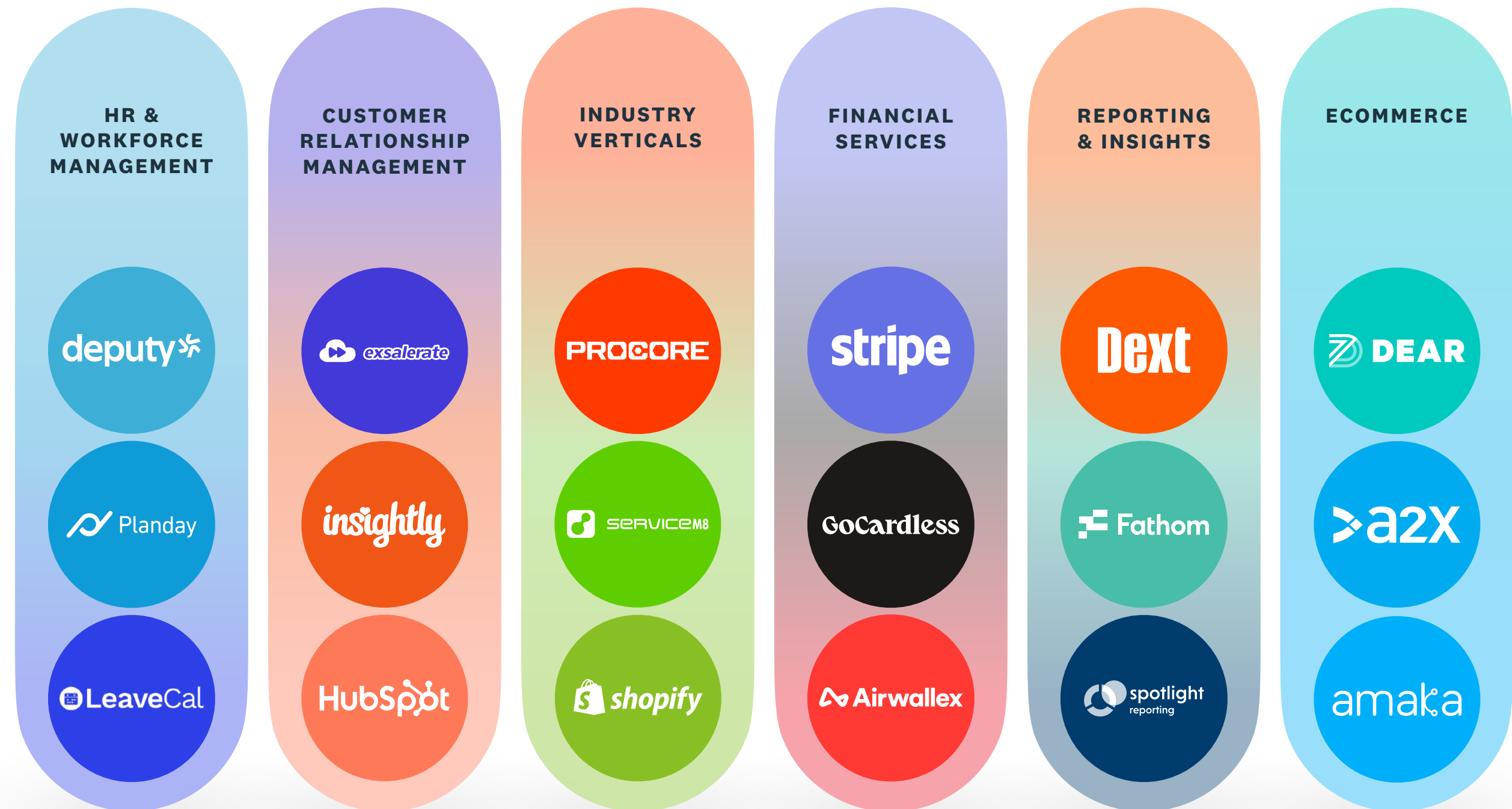
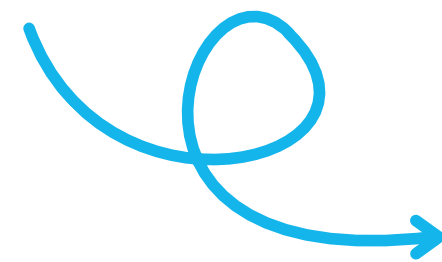
No single vendor is likely to meet all the needs of a small business

Xero is committed to being an open platform and encouraging third party innovation through our ecosystem

We facilitate this in a number of ways including through the Xero App Store



APP STORE



Build for global scale and innovation: technology investment

The next evolution of our technology investment is continuing our focus on:

EFFICIENCY AND SCALABILITY

Further enabling our technical environment and data environments for global scale. Supporting greater change capacity as we localise our core product to different markets

SPEED TO MARKET

Increase the speed we can deliver products to market and allowing us to be more agile in our product development

TALENT

Delivering a best practice environment for productivity and enablement of our engineers to drive innovation

INSIGHTS

Implementation supports Xero's long term goal to become the most insightful and trusted small business platform by increasing our ability to support data-led innovation by Xero and 3rd parties



Financial results



Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER



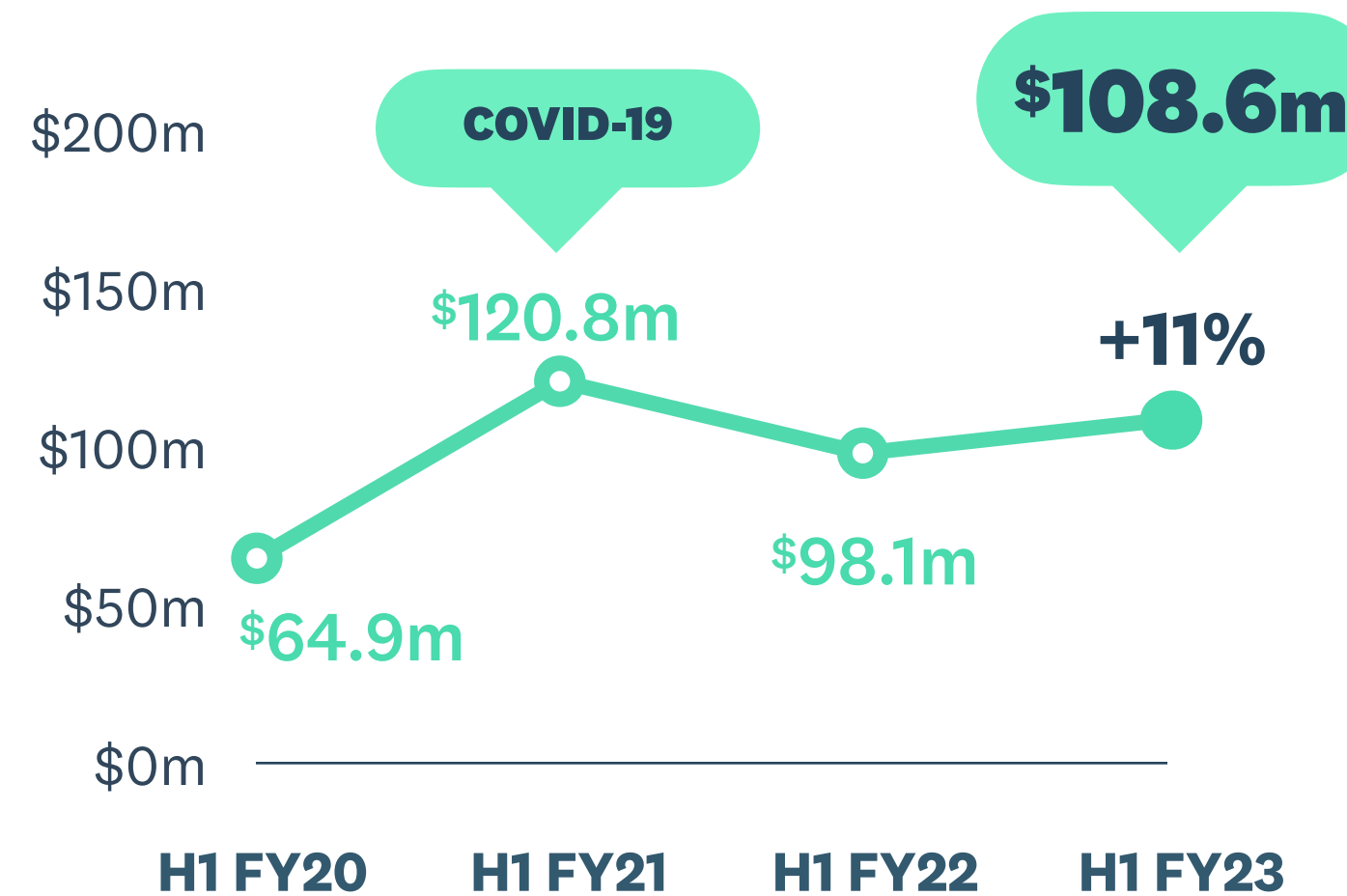
Robust financial performance with continued disciplined investment for the long term

AMRR



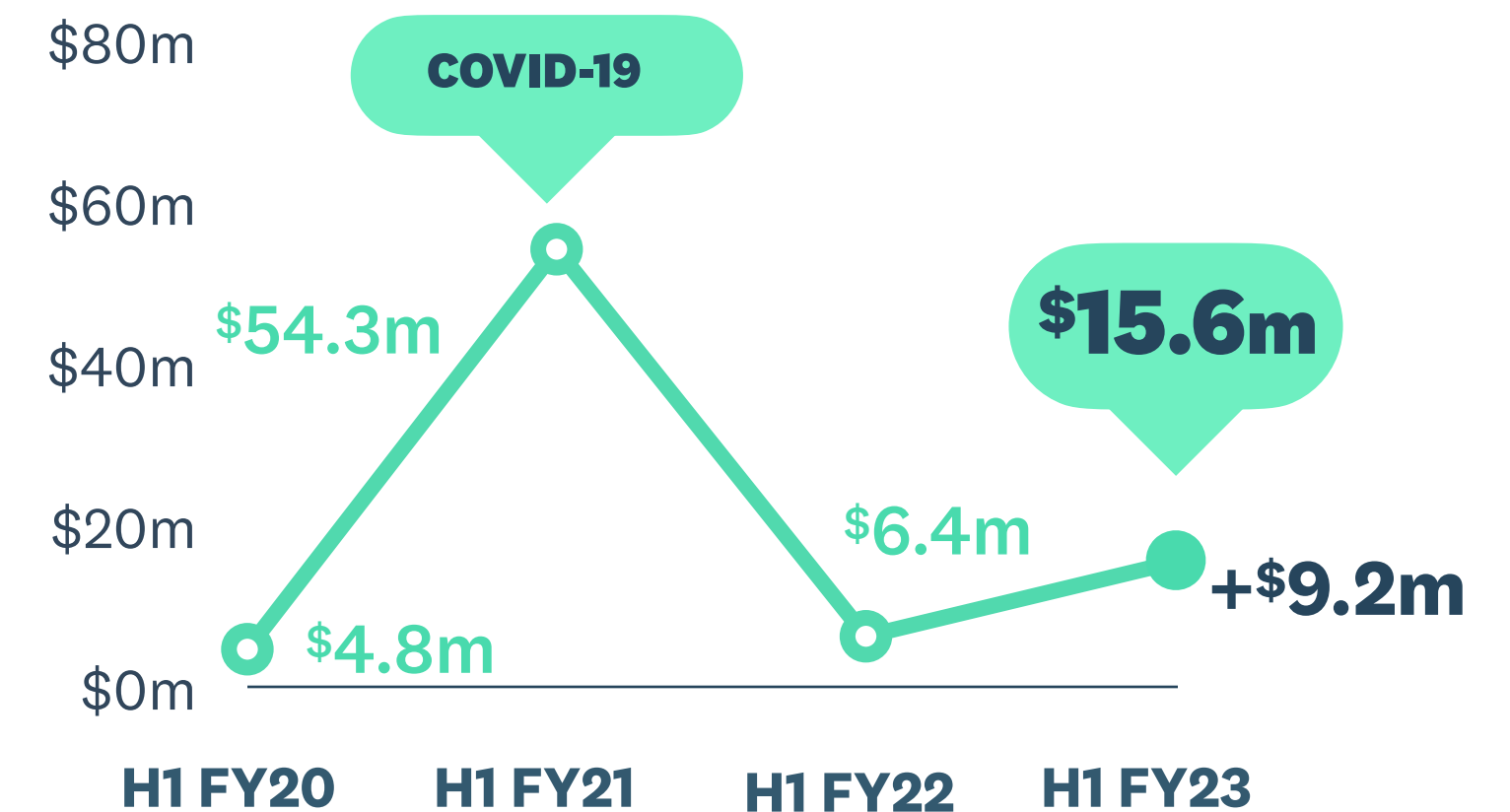
Growth in AMRR of \$348.4m or 31% YOY (23% in constant currency) reflects subscriber growth of 16%, and ARPU increase of 13% YOY (6% YOY in constant currency)

EBITDA



EBITDA increased by \$10.5m or 11% YOY, reflecting 30% revenue growth and controlled operating expenditure growth. EBITDA includes a \$25.9m impairment of the Waddle business, partly offset by \$10.8m of non-cash revaluation gains (discussed on slide 24)

Free cash flow

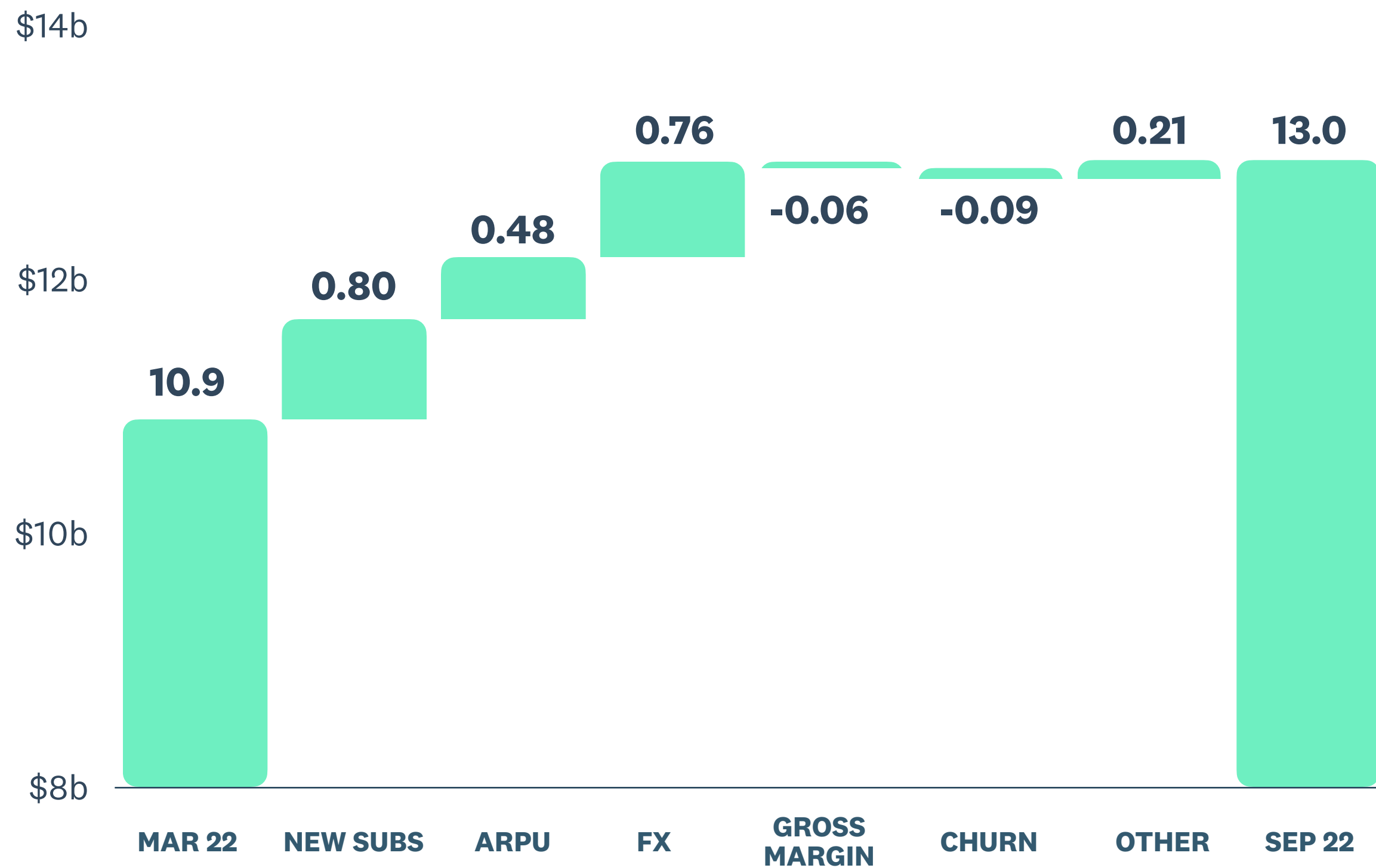


Free cash flow increased by \$9.2m to \$15.6m. Free cash flow as a percentage of revenue increased 1.1pp from 1.3% to 2.4% YOY

Continued uplift in lifetime value of subscribers

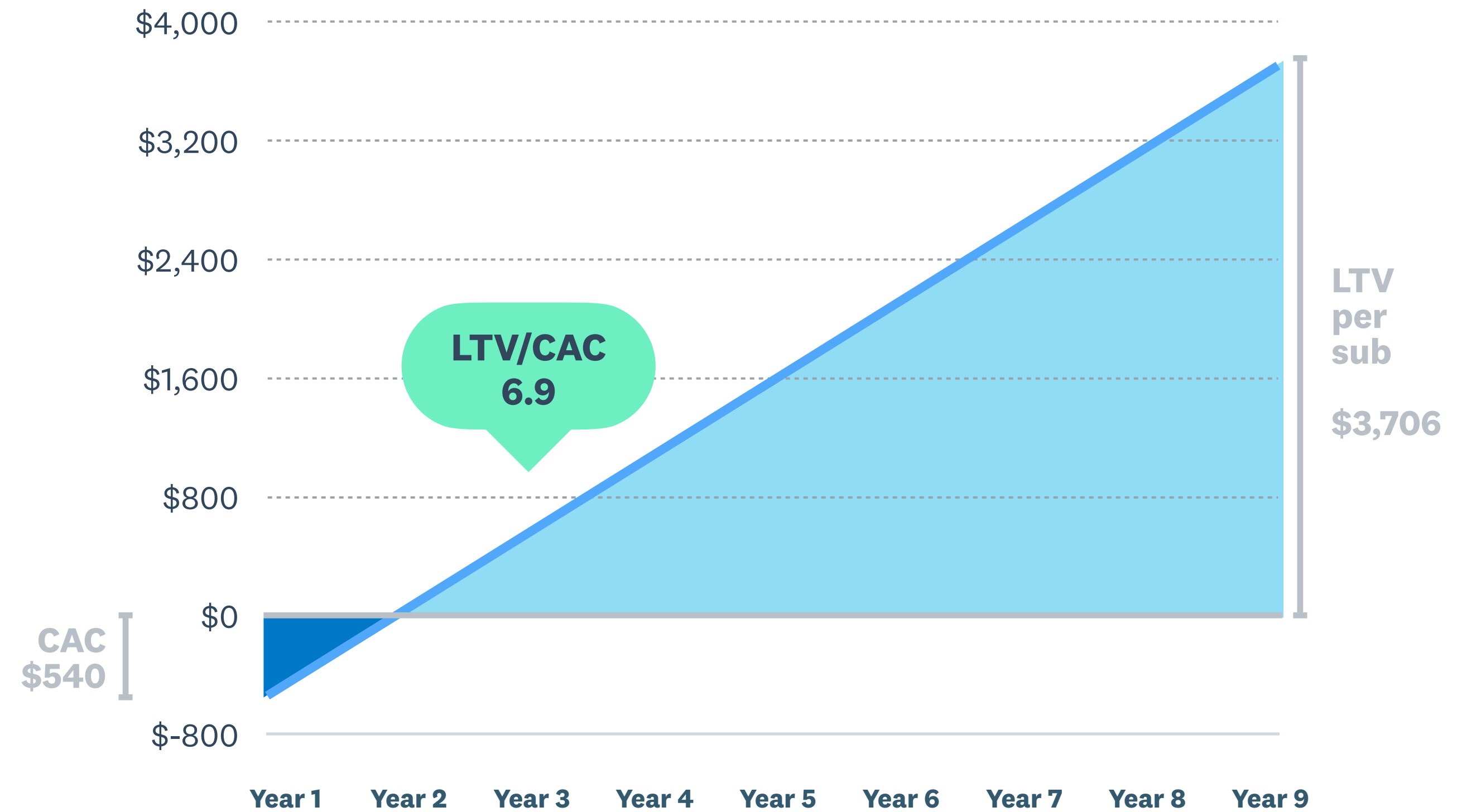
LTV movements by driver

From 31 March to 30 September 2022



Value of a Xero subscriber

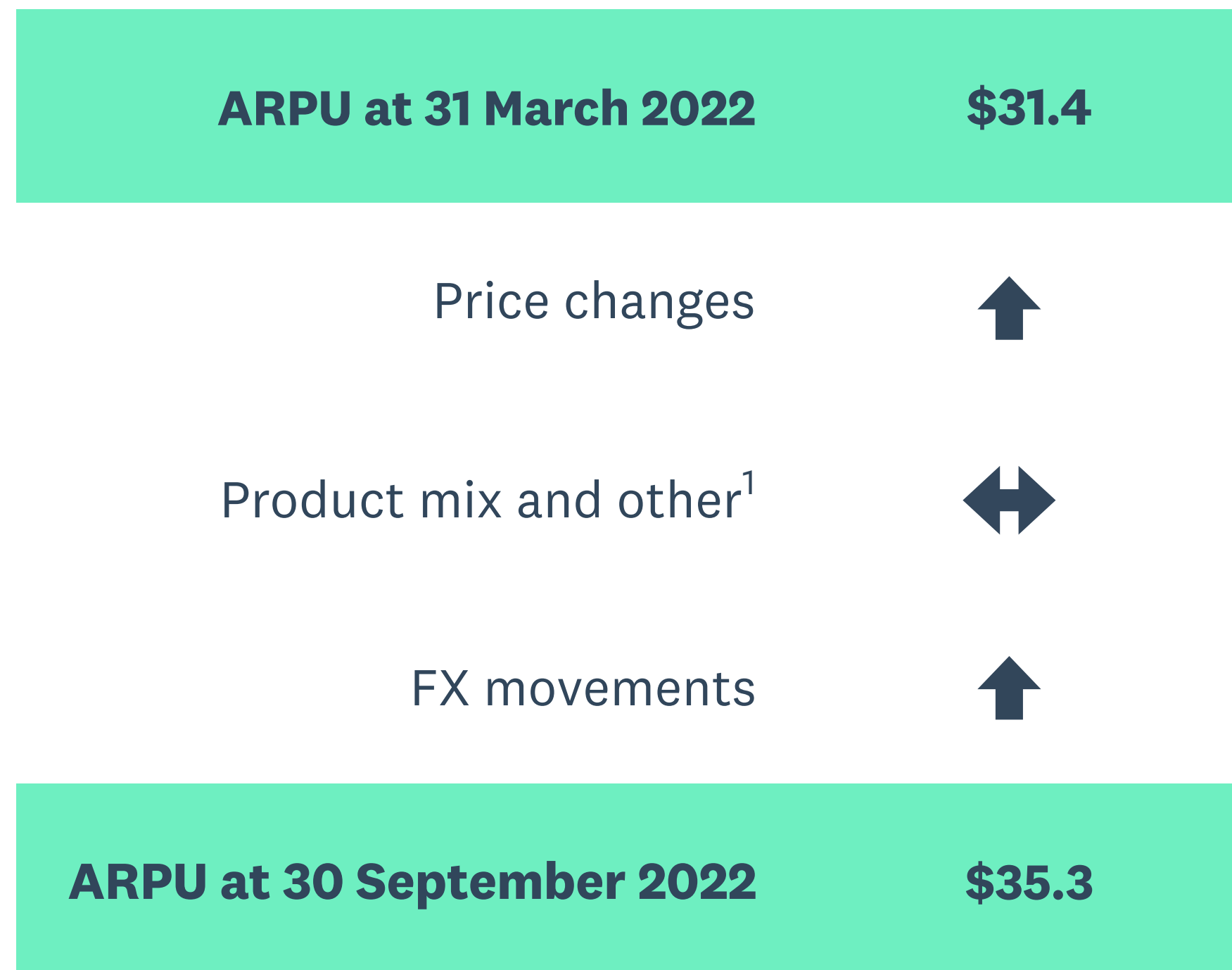
At 30 September 2022



Higher ARPU, continued low churn

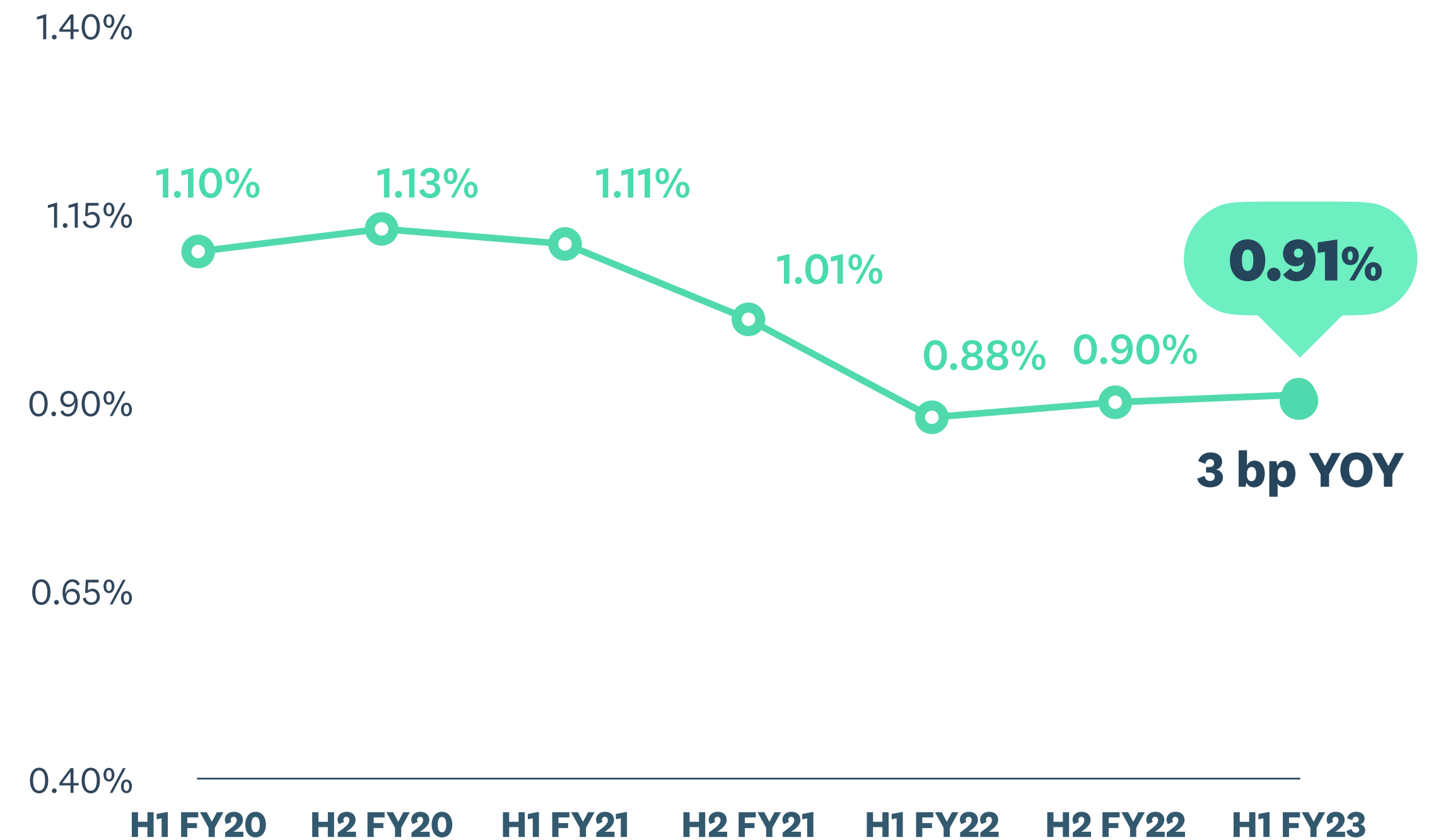
ARPU movement contributors

ARPU has increased by just over \$3.90 since 31 March 2022



Churn²

Churn has remained consistently below pre-COVID-19 pandemic levels



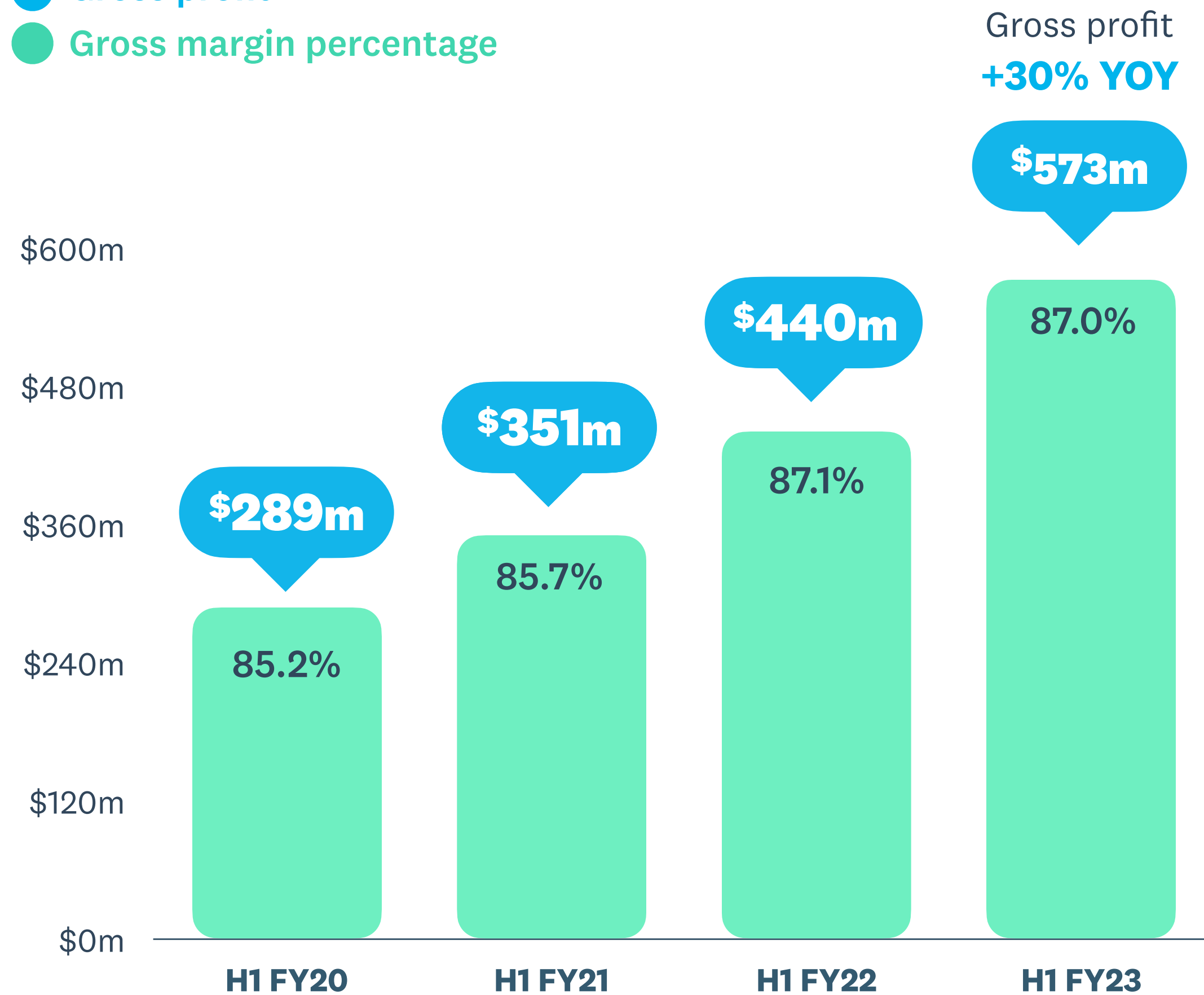
¹ Other includes platform revenues

² See glossary on page 33 for definition of churn

Continued investment delivers gross profit growth

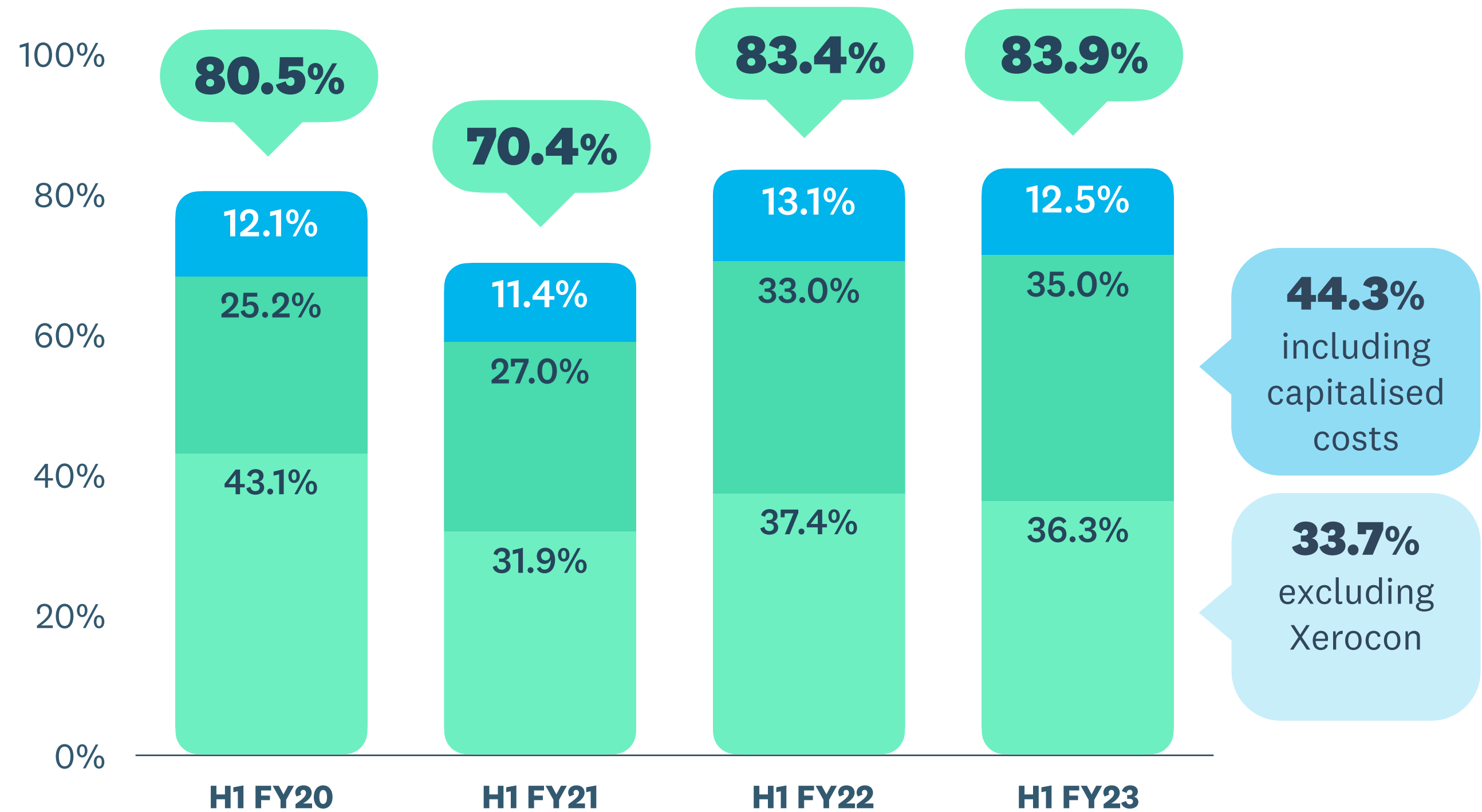
Gross profit and gross margin percentage

- Gross profit
- Gross margin percentage



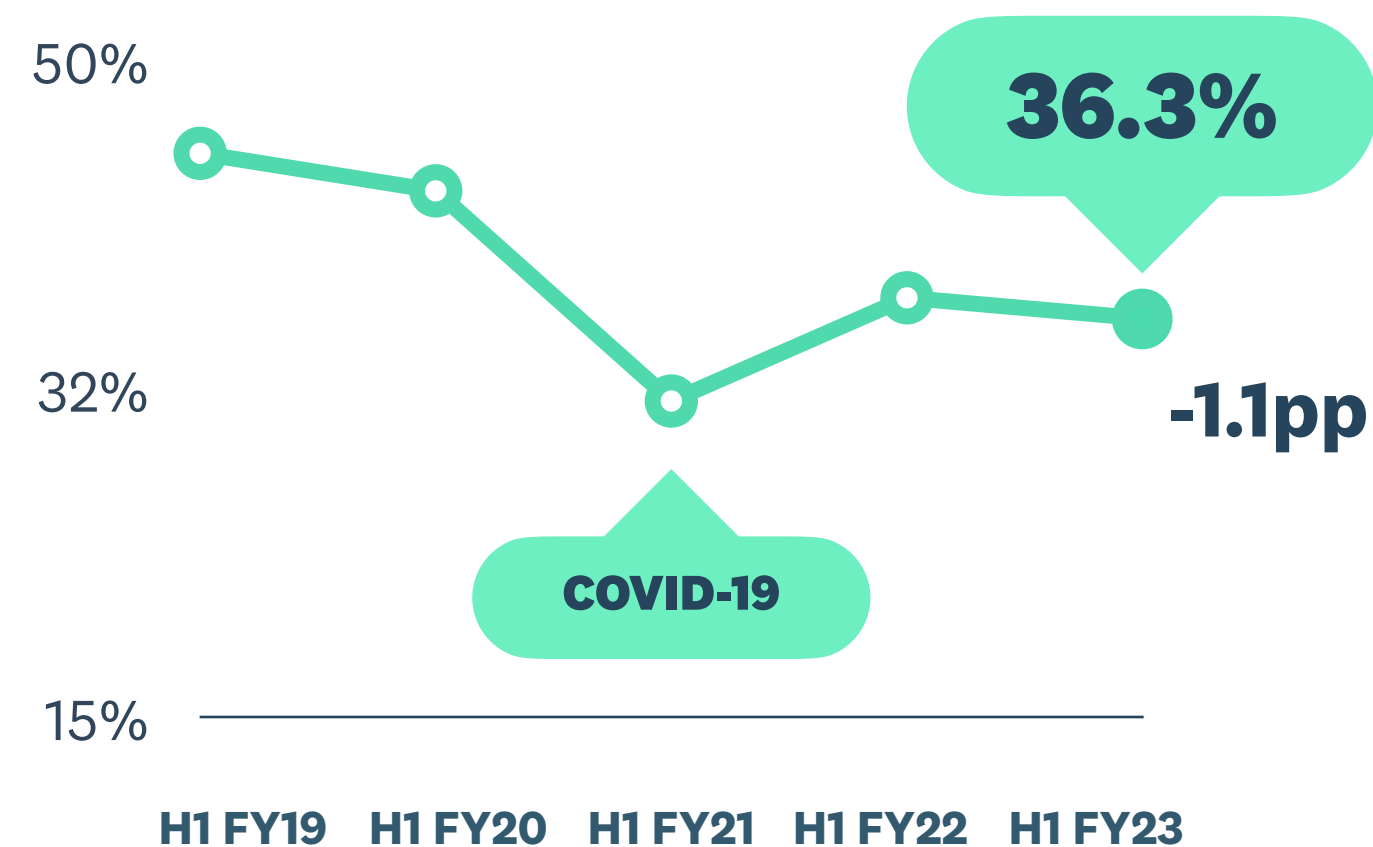
Operating expenses as a % of revenue

- Sales and marketing
- Product design and development
- General and administration



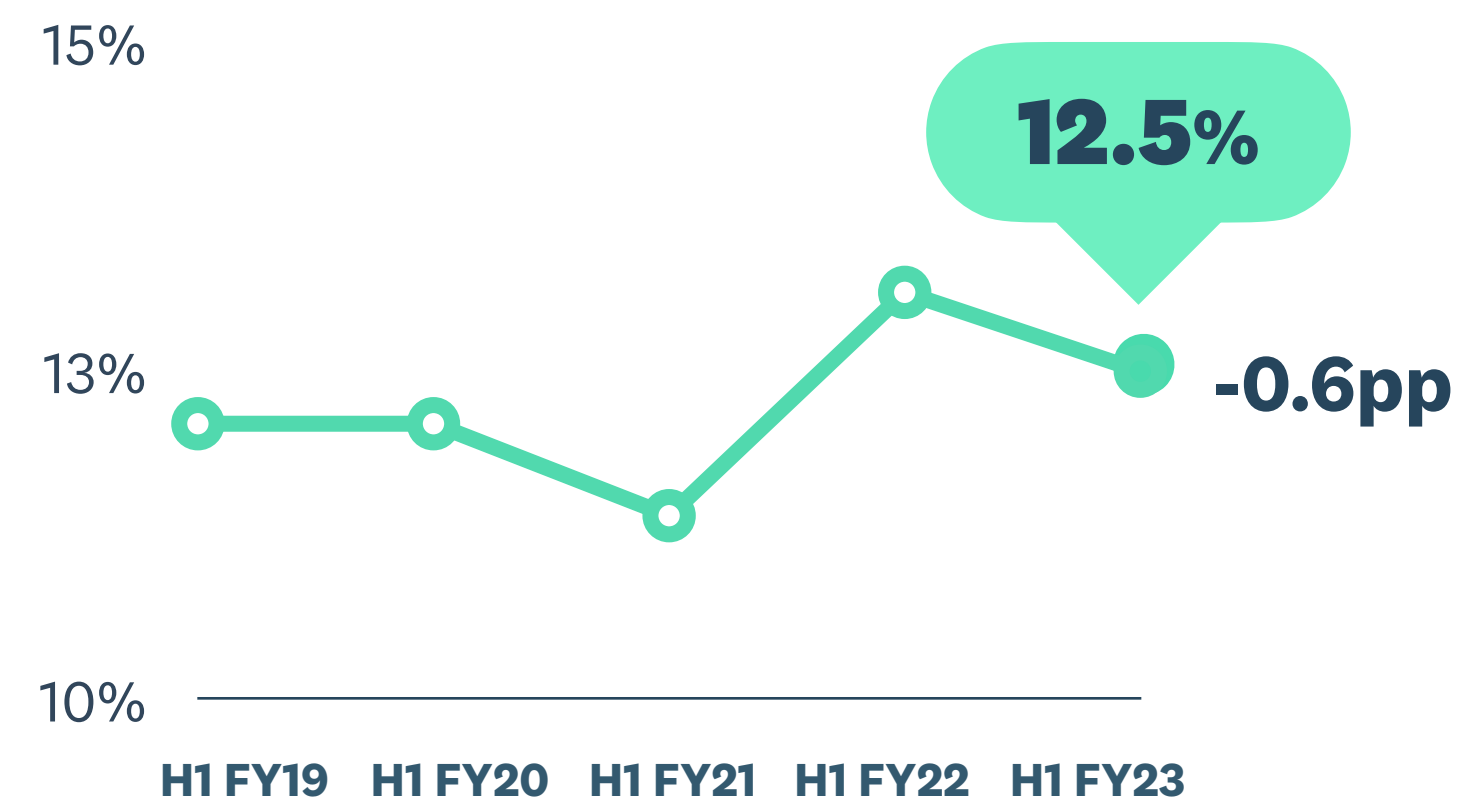
Balancing cost discipline with long term investment

Sales & marketing as a % of revenue



Sales and marketing costs increased by 26% YOY which was lower than the growth in operating revenue in H1 FY23. This resulted in a 1.1pp improvement in sales and marketing costs as a percentage of revenue. Excluding Xerocon, this ratio falls to 33.7% of revenue

General & administration as a % of revenue



General and administration costs increased by 25% YOY which was lower than the growth in operating revenue in H1 FY23. This resulted in 0.6pp improvement in G&A as a percentage of revenue YOY

Product design & development as a % of revenue



Product design and development costs increased 38% YOY, higher than the growth in operating revenue in H1 FY23. This reflected continued investment in global product innovation and platform delivery while managing inflationary cost pressures. This resulted in a 2.0pp increase in these costs as a percentage of revenue YOY

Robust financial performance

Operating revenue growth of 30% YOY (27% constant currency), driven primarily by subscriber growth and ARPU

Operating expenses increased 31% YOY and represented 83.9% of operating revenue

EBITDA increased \$10.5m YOY. Excluding impairments and non-cash revaluations EBITDA increased 28%

	H1 FY23 (\$000s)
EBITDA	108,551
Add back: contingent consideration and management incentives	(4,464)
Add back: derivative revaluations	(6,318)
Add back: Waddle impairment	25,940
EBITDA (excluding impairments and non-cash revaluations)	123,709

	H1 FY22 (\$000s)	H1 FY23 (\$000s)	Δ YOY (%)
Total operating revenue	505,703	658,512	30%
Cost of revenue	(65,286)	(85,600)	31%
Gross profit	440,417	572,912	30%
Gross margin	87.1%	87.0%	-0.1pp
Total operating expenses	(421,994)	(552,191)	31%
Asset impairments and other income & expenses	(1,500)	(14,344)	NM
Operating profit	16,923	6,377	-62%
EBITDA	98,080	108,551	11%
EBITDA margin	19.4%	16.5%	-2.9pp
Net loss	(5,922)	(16,130)	172%

Total liquid resources of \$1.1 billion

Total available liquid resources at 30 September 2022 of \$1.1 billion

Improved positive free cash flow outcome reflects emerging efficiencies



Movement in net cash position

	H1 FY22 (\$000s)	H1 FY23 (\$000s)	Δ YOY (\$000s)
Cash and cash equivalents	470,065	395,092	(74,973)
Short-term deposits	537,986	730,470	192,484
Total cash and short-term deposits	1,008,051	1,125,562	117,511
Convertible notes – term debt liability	(883,003)	(1,101,523)	(218,520)
Net cash	125,048	24,039	(101,009)








Outlook

Xero will continue to focus on growing its global small business platform and maintain a preference for reinvesting cash generated, subject to investment criteria and market conditions, to drive long-term shareholder value.

Total operating expenses (including acquisition integration costs) as a percentage of operating revenue for FY23 are expected to be towards the lower end of a range 80-85%.



Evolution of Xero's financial profile

EXPENSE RATIO	H1 FY23	FY22	FY23 EXPECTATION	LONG TERM ASPIRATION
SALES & MARKETING	36.3% of revenue	37.0% of revenue	UNCHANGED Expected ratio trend vs FY22:	 
OUTCOME	<ul style="list-style-type: none"> Revenue Growth: +30% Subscriber Growth: +16% LTV/CAC: 6.9 		<ul style="list-style-type: none"> Revenue Growth Subscriber Growth Attractive LTV/CAC 	
PRODUCT DESIGN & DEVELOPMENT	35.0% of revenue	33.9% of revenue	UPDATED Product design & development expense as a proportion of operating revenue for FY23 is expected to be slightly higher than in FY22	 
PRODUCT INITIATIVES AND DELIVERY HIGHLIGHTS	DELIVERERED <ul style="list-style-type: none"> Meeting needs of customers with less complex needs - XeroGo Deeper North America localisation: Avalara partnership, bank feeds 		CONTINUING TO INVEST IN <ul style="list-style-type: none"> Continued investment in extending UK partner product and product localisation in North America Continuing technology investment 	
GENERAL & ADMINISTRATION	12.5% of revenue	13.1% of revenue	UNCHANGED Expected ratio trend vs FY22:	 
TOTAL OPERATING EXPENSES	83.9% of revenue	84.0% of revenue	UNCHANGED Lower end of 80-85% range	

Q&A



Steve Vamos

CHIEF EXECUTIVE OFFICER



Kirsty Godfrey-Billy

CHIEF FINANCIAL OFFICER



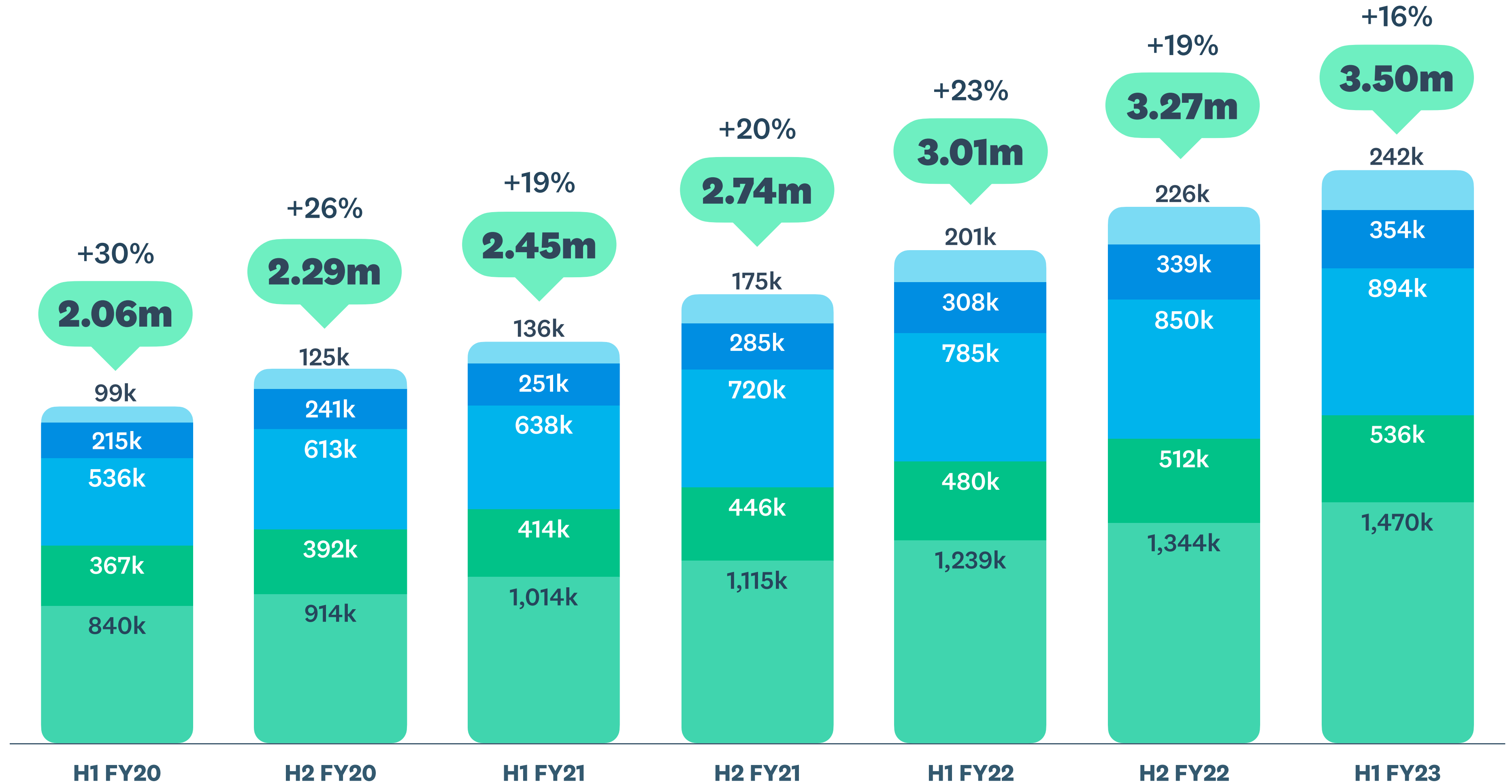
Appendix



Subscriber growth trend

Closing subscribers from H1 FY20 to H1 FY23

- Australia
- New Zealand
- United Kingdom
- North America
- Rest of World



SaaS metrics summary

ANZ

International

Group

	FY21	H1 FY22	FY22	H1 FY23	FY 21	H1 FY22	FY22	H1 FY23	FY21	H1 FY22	FY22	H1 FY23
ARPU	\$31.23	\$31.38	\$32.00	\$35.56	\$26.74	\$31.25	\$30.53	\$34.95	\$29.30	\$31.32	\$31.36	\$35.30
CAC months	8.9	9.1	8.8	8.7	22.4	19.5	22.9	22.8	14.8	14.2	15.5	15.3
Churn	0.73%	0.67%	0.66%	0.66%	1.43%	1.20%	1.23%	1.26%	1.01%	0.88%	0.90%	0.91%
Subscribers	1,561,000	1,719,000	1,856,000	2,006,000	1,180,000	1,294,000	1,415,000	1,490,000	2,741,000	3,013,000	3,271,000	3,496,000
Net additions (6 months)	133,000	158,000	137,000	150,000	155,000	114,000	121,000	75,000	288,000	272,000	258,000	225,000
LTV per sub	\$3,682	\$4,080	\$4,225	\$4,664	\$1,608	\$2,262	\$2,164	\$2,416	\$2,789	\$3,299	\$3,333	\$3,706
LTV/CAC	13.2	14.3	14.9	15.1	2.7	3.7	3.1	3.0	6.4	7.4	6.9	6.9
Total LTV	\$5.75b	\$7.01b	\$7.84b	\$9.36b	\$1.90b	\$2.93b	\$3.06b	\$3.60b	\$7.65b	\$9.94b	\$10.90b	\$12.96b

Financial performance

Overview of financial performance from H1 FY21 to H1 FY23

	H1 FY21 (\$000s)	H2 FY21 (\$000s)	H1 FY22 (\$000s)	H2 FY22 (\$000s)	H1 FY23 (\$000s)
Total operating revenue	409,837	438,945	505,703	591,116	658,512
Gross profit	351,161	378,728	440,417	517,014	572,912
Gross margin	85.7%	86.3%	87.1%	87.5%	87.0%
Sales & marketing costs	(130,750)	(177,198)	(189,017)	(216,636)	(238,980)
<i>Percentage of operating revenue</i>	31.9%	40.4%	37.4%	36.6%	36.3%
Product design & development	(110,654)	(138,878)	(166,833)	(205,191)	(230,710)
<i>Percentage of operating revenue</i>	27.0%	31.6%	33.0%	34.7%	35.0%
General & administration	(46,917)	(59,428)	(66,144)	(78,028)	(82,501)
<i>Percentage of operating revenue</i>	11.4%	13.5%	13.1%	13.2%	12.5%
Total operating expenses	(288,321)	(375,504)	(421,994)	(499,855)	(552,191)
<i>Percentage of operating revenue</i>	70.4%	85.5%	83.4%	84.6%	83.9%
Asset impairments and other income & expenses	(3,151)	(1,226)	(1,500)	7,892	(14,344)
Operating profit	59,689	1,998	16,923	25,051	6,377
EBITDA	120,765	70,463	98,080	114,581	108,551
EBITDA margin	29.5%	16.1%	19.4%	19.4%	16.5%
Net profit/(loss)	34,486	(14,712)	(5,922)	(3,192)	(16,130)

Exchange rates

The table below outlines the principal exchange rates used in the current and prior period



*Six months ended/
as at 30 September*

	2022		2021	
	Average rate	Closing rate	Average rate	Closing rate
NZD / AUD	0.904	0.880	0.941	0.956
NZD / CAD	0.815	0.782	0.880	0.876
NZD / EUR	0.610	0.582	0.594	0.592
NZD / GBP	0.519	0.515	0.510	0.511
NZD / SGD	0.876	0.817	0.950	0.936
NZD / USD	0.632	0.570	0.708	0.687

Glossary

AMRR

Annualised monthly recurring revenue (AMRR) represents monthly recurring revenue at 30 September, multiplied by 12. It provides a 12 month forward view of revenue, assuming any promotions have ended and other factors such as subscriber numbers, transaction volumes, pricing and foreign exchange remain unchanged during the year

ARPU

Average revenue per user (ARPU) is calculated as AMRR at 30 September divided by subscribers at that time (and divided by 12 to get a monthly view)

CAC months

Customer Acquisition Cost (CAC) months are months of ARPU to recover the cost of acquiring each new subscriber. The calculation is sales and marketing costs for the year excluding the capitalisation and amortisation of contract acquisition costs, less conference revenue (such as Xerocon), divided by gross new subscribers added during the same period, divided by ARPU

CAGR

Compound annual growth rate

Churn

Churn is the value of monthly recurring revenue (MRR) from subscribers who leave Xero in a month as a percentage of the total MRR at the start of that month. The percentage provided is the average of the monthly churn for the previous 12 months. Average subscriber lifetime is calculated as one divided by churn

Constant currency (cc)

Constant currency comparisons for revenue are based on average exchange rates for the 6 months ended 30 September 2021. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 30 September 2021

Core accounting revenue

Core accounting revenue comprises subscription based revenue to Xero's cloud-based platform, including any revenue for products that are bundled into subscription plans (such as Hubdoc and Payroll in some regions)

Free cash flow

Free cash flow is defined as cash flows from operating activities less cash flows used for investing activities excluding cash used for acquisitions of, and investments into, businesses and strategic assets

GAAP

Generally accepted accounting principles

Lifetime value (LTV)

LTV is the gross margin expected from a subscriber over the lifetime of that subscriber. This is calculated by taking the average subscriber lifetime (1 divided by churn) multiplied by ARPU, multiplied by the gross margin percentage. Group LTV is calculated as the sum of the individual segment LTVs, multiplied by their respective segment subscribers, divided by total Group subscribers

Liquid resources

Liquid resources comprises cash and cash equivalents, short-term deposits including proceeds from convertible notes, and undrawn committed debt facilities

Other revenue

Other revenues comprises non-recurring revenues and WorkflowMax. Non-recurring revenues include revenue from events (such as Xerocons and roadshows), and other non-subscription or platform services. WorkflowMax is online workflow and job management software

Platform revenue

Platform revenues include revenue derived from related services, including adjacent products (such as Hubdoc subscriptions on other accounting platforms) and add-ons with incremental revenue (such as Payroll, Projects and Expenses modules), and payments and revenue share agreements with partners

Subscribers

Subscriber means each unique subscription to a Xero-offered product that is purchased by a user (eg a small business or accounting partner) and which is, or is available to be, deployed. Subscribers that have multiple subscriptions to integrated products on the Xero platform are counted as a single subscriber

TAM

Total addressable market

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